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UNCLAS ALMATY 003172

SIPDIS

DEPT PASS TO EUR/CACEN MUDGE
DEPT PASS TO OPIC - BALLINGER
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER
DEPT PASS TO AID - EE-PHILLIPS/RUSHING
TREASURY FOR OASIA/VELTRI
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS
USDOC FOR 6110/ITA/TD/BI/RHALPERN
ANKARA FOR CFC

E.O. 12958: N/A

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SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE

August 7 - August 20, 2005

1. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

- Changes in the Cabinet
- WTO Protocol with Turkey Signed
- China Bank of Kazakhstan Lost License
- Economic Statistics
- CNPC International to Buy PetroKazakhstan
- TCO Executives Sued for Environmental Damage
- GoK to Review North Caspian PSA
- Kazakhstan Bans Aviation Fuel Export Through 2005
- Oil & Gas Statistics

Changes in the Cabinet

2. Serik Umbetov was discharged from his position of Minister of Agriculture and appointed as Akim of Almaty Oblast (not Almaty city) by a presidential decree. Shalbay Kulmakhanov, who had held the position of Akim of Almaty Oblast, was appointed as Minister for Emergency Situations. Mukhambet Kopey was dismissed from the position of Minister for Emergency Situations by the President's decree in connection with a new, as yet unspecified, appointment. (Panorama, August 12)

WTO Protocol with Turkey Signed

3. Kazakhstan and Turkey signed a protocol on completion of the bilateral negotiations for access to Kazakhstan market on mutually acceptable terms. According to the press service of the GOK, "the parties negotiated the levels of Kazakhstan's import customs duties for Turkish commodities and obligations regarding Turkey's access to the Kazakh services market, in line with the WTO agreements." Completion of the negotiations will promote Kazakhstan's early admission to the WTO. (Interfax - Kazakhstan, August 15)

China Bank of Kazakhstan Lost License

4. According to Yelena Bakhmutova, Deputy Chairman of the Financial Supervision Agency (FSA), the license for transfer operations will be withdrawn from China Bank of Kazakhstan JSC (a subsidiary of the Bank of China) for six months. As Bakhmutova explained, the FSA uncovered violations connected with money transfers: individuals sent money to China from accounts not belonging to them. "After investigation of the incident the bank is going to take steps to prevent such situations in the future," she added. (Interfax - Kazakhstan, August 16)

Economic Statistics

5. The net profit of the Aktau International Seaport was KZT 677,475,000 (approximately \$5 million) for the first half of 2005, versus KZT 985,080,000 (about \$7.2 million) for H1 2004. Revenues from sales of goods, works, and services totaled KZT 2,158 million in January-June 2005 (approximately \$16 million) versus KZT 2,028 million (about \$15 million) in H1 2004. As reported, Aktau Seaport transshipped a total of 5,294,031 tons of freight in January-June 2005, including by ferries, compared to 4,959,329 tons during H1 2004. (Interfax - Kazakhstan, August 8)

6. In July 2005, the volume of foreign currency traded by the population via exchange points in Kazakhstan was KZT 115 billion (approximately \$848 million), according to the press

service of the National Bank of Kazakhstan. The most significant trade was in U.S. dollars: \$730 million; about half of this amount (\$384 million) was bought at exchange points in Almaty. The Euro volume traded in July was Euro 65 million. Almaty residents bought Euro 44 million or 67% of the total amount. (Kazakhstan Today, August 17).

17. The average cost per square meter of housing in Almaty for the month of July is \$1,178.30, according to real estate experts. They evaluate the housing market for July as stable in general, despite "the significant shifts in housing prices for expensive apartments." Prices for elite apartments in newly constructed buildings increased in July by 12-18%. (Golden Eagle Service, August 18)

CNPC International to Buy PetroKazakhstan

18. On August 22, CNPC International, a subsidiary of China National Petroleum Corporation (CNPC), agreed to pay \$4.18 billion, or \$55 per share, for Canadian firm PetroKazakhstan (PK). PK's Board of Directors has recommended that its shareholders accept CNPCI's offer, which is subject to the approval by 66.6% of them at an October meeting. Goldman Sachs International is acting as financial advisor to PK. The agreement contains customary provisions prohibiting PK from soliciting any other acquisition proposal, but allows the PK Board of Directors to accept and recommend a superior proposal if it is required to do so to avoid breaching its fiduciary duties and upon payment of a termination fee of \$125 million. Under the Agreement, CNPCI has the right to match any such superior proposal. Indian Oil & Natural Gas Corp. is reportedly now evaluating the possibility of submitting a counter offer. (Reuters, August 23)

TCO Executives Sued for Environmental Damage

19. Atyrau's Environmental Protection Procuracy has initiated criminal proceedings against TengizChevrOil (TCO) executives for "violation of environmental standards in economic and other activities" and "for air pollution damaging human health," a representative of the Procuracy announced on August 8. The criminal case is related to failure of Tengiz gas-processing plant on July 2, which caused acid and crude gas leak in the amount of 49,910 tons. The damage is assessed at KZT 199.7 million (\$1.5 million). Documents have been submitted to Atyrau Oblast Prosecutor's Office to verify the appropriateness of criminal charges. (Kazakhstan today, August 11)

GoK to Review North Caspian PSA

110. According to an August 13 Decree by the Prime Minister, the GoK has established a working group under Vice-Minister of Finance Uzbekov to review provisions of the Production Sharing Agreement (PSA) for the North Caspian Sea (Kashagan) signed on November 18, 1997 with OKIOC (currently - Agip KCO). The working group will review the application of separate issues of Kazakhstani tax and customs legislation to the Kashagan PSA. (Prime-Minister Decree #222-p, August 18)

Kazakhstan Bans Aviation Fuel Export Through 2005

111. Kazakhstan imposed a temporary ban on aviation fuel export from August 20 through December 31, 2005, according to an August 19 decree by the Prime Minister. The ban is imposed "for the purpose of saving the required aviation fuel for economic needs of the Republic." The ban does not apply to aviation fuel registered earlier in accordance with regular declaration before enactment of the decree, and also placed under special customs regime. (Interfax - Kazakhstan, August 22)

Oil & Gas Statistics

112. In January-July oil production in Kazakhstan was 28.9 million tons, 1% higher compared to the same period in 2004, the National Statistics Agency reported. During the same period, 6.8 million tons of gas condensate, up 44% year-on-year, were produced. (Interfax - Kazakhstan, August 15)

113. In H1 2005 Kazakhstan exported 28.1 million tons of oil and gas condensate, 12.1% higher compared to the same period in 2004. In dollar terms, the exports totaled \$8.1 billion, a 78% increase. (Interfax - Kazakhstan, August 15)

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